

**STATEMENT BEFORE THE SENATE COMMERCE COMMITTEE
ON THE FUTURE OF INSURING TERRORISM RISK**

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Thank you for the opportunity to be here today. My name is Phil Hawkins, and I am the Chief Operating Officer of CarrAmerica Realty Corporation, a New York Stock Exchange company that owns, develops and operates office properties in 14 markets throughout the United States. I am intimately familiar with the impact of terrorist threats on private property since CarrAmerica is one of the largest commercial landlords in downtown Washington, D.C. and owns and operates office buildings across the street from the Old Executive Office Building. I am here today as a member of the National Association of Real Estate Investment Trusts and on behalf of a number of real estate organizations and trade groups that are separately submitting written testimony.

The tragic events of September 11th have triggered a withdrawal of virtually all new property and casualty insurance coverage relating to terrorism. While this will become more readily apparent throughout the economy on January 1st, when

approximately 70 percent of the policies on commercial properties are scheduled for renewal, it is already causing significant problems in pending real estate transactions.

As the COO of CarrAmerica, I know from my more than 20 years of experience that it is not possible to buy, sell or finance a property unless it is adequately covered by insurance. A significant percentage of privately owned properties which are open to the public, including shopping centers, offices and hotels will need to renew their insurance coverage on January 1st. Many of these owners have been advised that their policies may not be renewed or that their new policies will exclude exposures currently insured including terrorism. These owners have also been advised that while they will have to absorb significant increases in their premiums, they will also bear expanded uninsured exposures due to new policy exclusions.

Without adequate insurance, it will be difficult, if not impossible, to develop, operate or acquire properties, refinance loans, and to sell commercial-backed securities. Disappearance of coverage for terrorist acts on real estate and its effect on other businesses could severely disrupt the economy. It will not only affect real estate owners and lenders but also their tenants who lease facilities, their employees and customers as well as anyone who rents an apartment. I am very concerned

about the short and long-term future of the real estate industry unless the Federal government creates some type of mechanism to help provide this coverage.

Before September 11, property and general liability policies typically covered losses including business interruption costs stemming from terrorism and similar acts. However, as confirmed by recent insurance industry CEOs' testimony, future policies will exclude coverage for terrorism and sabotage in addition to their current exclusion for acts of war. Additionally, they stated that reinsurance for terrorism and sabotage is currently unavailable in the marketplace. Without reinsurance, there will likely be no primary insurance covering losses caused by terrorism. As a result, the real estate and construction industries, which account for over a quarter of the nation's gross domestic product, could face severe economic dislocation in the coming months if the federal government does not immediately address insurance-related issues tied to terrorism.

The Federal government needs to help ensure that commercial property owners and other businesses can continue to obtain insurance coverage for losses related to terrorism in the future. It will become an increasingly larger problem if it is not resolved prior to the expiration of the many policies that terminate on January

1. Necessary characteristics of a workable plan include the following:

--Duration: Because real property is a long-lived fixed asset, it is generally financed over a long-term – typically 10-30 years. Thus, if the program created is of insufficient length, it may not provide sufficient stability in the long-term. Any program created must be of sufficient duration to provide reasonable certainty for these long-term owners, lenders and investors. If Congress decides to adopt a program of just 2 to 3 years, it is important to provide the President with the flexibility to extend the program if he makes a finding that the private markets cannot offer terrorism coverage at that point.

--Definition of Terrorism: The line between “terrorism” and “acts of war” has been blurred significantly since the September 11 attacks on the World Trade Center and the Pentagon. President Bush and news media have been focused on our current “war against terrorism.” The real estate industry is concerned that any future incidents in this ongoing conflict may be considered an “act of war” by the insurance industry and therefore be excluded from coverage. Accordingly, any program created must cover an expansive notion of terrorism so that future events along the lines of September 11 and other similar acts are covered – and are not excluded from coverage in the future.

--Deductible/Limits of Coverage: The real estate industry is concerned that a dramatic and unsupportable increase in deductibles to property owners could be tantamount to no insurance coverage at all. For example, if a real estate owner plans to acquire a \$10 million property with \$3 million of equity and \$7 million of debt, a total loss under an insurance policy with a deductible of \$3 million or more could effectively wipe out the real estate owner's equity and would likely not result in an investment in the property. The same result would likely arise if the insurer capped the policy limit at \$7 million that would not protect the owner's equity. Accordingly, any program created must carefully consider apportionment of loss exposure among property owners, lenders, insurers and the Federal government.

--Disclosure of Premium Cost: With property and casualty insurance rates already predicted to skyrocket prior to the attack on America, insurers should be required to separately disclose the cost of terrorism coverage to avoid any misunderstanding as to the program's impact on overall insurance rates. Otherwise, it will be impossible to discern the actual increase in the policy as a result of the difficulty in writing terrorism coverage and the increase as result of other market conditions.

Our Congress must not fail to act. Our industry welcomes the opportunity to work with the Administration and Congress to achieve a workable solution to this immediate problem this year and our company wants to get back to its core mission of "creating better places to live, learn, work, travel and play".